

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10  
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 USIA-06  
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 OMB-01 /086 W  
-----066189 110515Z /20

R 110414Z MAR 78  
FM AMEMBASSY KATHMANDU  
TO SECSTATE WASHDC 1332  
INFO AMEMBASSY NEW DELHI  
AMEMBASSY DACCA  
AMEMBASSY ISLAMABAD

C O N F I D E N T I A L SECTION 1 OF 2 KATHMANDU 1265

E.O. 11652: GDS  
TAGS: ETRD, NP, IN, BG, PK  
SUBJECT: TRADE AND TRANSIT AGREEMENTS

REF: KATHMANDU 1142

1. IN MARCH 9 DISCUSSION BETWEEN DCM AND FOREIGN SECRETARY BHATT, BHATT SAID GON WAS QUITE SATISFIED WITH OUTCOME OF LAST ROUND OF INDO-NEPAL TRADE AND TRANSIT TALKS AT WHICH SEPARATE TREATIES ON TRADE AND TRANSIT, AS WELL AS AGREEMENT ON DEFLECTION OF TRADE, HAD BEEN INITIALED. BHATT SAID HE WOULD BE GOING TO DELHI MARCH 16 FOR SIGNING CEREMONY IN WHICH MINISTERS OF COMMERCE WILL BE THE PRINCIPLES.

2. BHATT SAID THAT, IN ADDITION TO GETTING THE TWO SEPARATE TREATIES, NEPAL HAD MADE OTHER GAINS IN THE NEW AGREEMENTS. A MAJOR ONE WAS INDIA'S AGREEMENT TO ALLOW TRANSIT THROUGH INDIA FOR TRADE TO AND FROM BANGLADESH AND BEYOND, AND INDIA HAD AGREED THAT TRANSIT COULD TAKE PLACE AT ONE ADDITIONAL POINT (APPARENTLY STILL TO BE DETERMINED) BESIDES RADHIKAPUR. THE OTHER MAJOR GAIN FOR NEPAL,  
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HE SAID, WAS INDIA'S AGREEMENT THAT MANUFACTURED GOODS WITH A 20 PERCENT FOREIGN COMPONENT (IN PLACE OF THE CURRENT 10 PERCENT) WOULD ENTER INDIA DUTY-FREE. HE SAID THERE WERE SOME 68 NEPALESE MANUFACTURED ITEMS WHICH WOULD FALL INTO THIS CATEGORY, AND MENTIONED BRITANIA BISCUITS ESPECIALLY AS A PRODUCT FOR WHICH THERE WOULD BE A GOOD MARKET IN INDIA. IN ADDITION, INDIA HAD AGREED

THAT PRODUCTS MANUFACTURED IN NEPAL WITH A 20 TO 50 PERCENT FOREIGN COMPONENT WOULD IN FUTURE HAVE TO FACE ONLY A 50 PERCENT DUTY, IN PLACE OF THE CURRENT 100 PERCENT DUTY. FINALLY IN THIS AREA, INDIA HAD AGREED THAT NEPALESE MANUFACTURES WITH MORE THAN 50 PERCENT FOREIGN COMPONENTS WOULD BE ALLOWED TO ENTER INDIA ON THE SAME BASIS AS SIMILAR GOODS FROM OTHER COUNTRIES, WITHOUT DISCRIMINATION. THESE CONCESSIONS, HE SAID, WOULD BE HELPFUL IN PROMOTING NEPALESE MANUFACTURED EXPORTS TO INDIA.

3. HE SAID THERE WERE ALSO OTHER PARTS OF THE AGREEMENTS BENEFICIAL TO NEPAL. INDIA HAD AGREED THAT RAIL RECEIPTS, NECESSARY TO CLAIM GOODS AT RAXAUL, WOULD NOW BE GIVEN TO THE CARRIER AND WOULD THEREFORE ARRIVE AT THE SAME TIME AS THE GOODS THEMSELVES, THEREBY OBTAINING DELAYS AND DEMURRAGE CHARGES SOMETIMES INCURRED UNDER THE PREVIOUS SYSTEM IN WHICH THE RAIL RECEIPTS WERE SENT BY MAIL. IN ADDITION, INDIA HAS MADE A COMMITMENT IN PRINCIPLE TO SEE THAT NEPAL WOULD GET ITS FAIR SHARE OF QUOTA GOODS FROM INDIA (I.E., GOODS SUCH AS CEMENT AND STEEL, WHICH ARE IN SHORT SUPPLY IN INDIA), THOUGH SPECIFIC AMOUNTS WOULD HAVE TO BE NEGOTIATED EACH YEAR.

4. IN SEPARATE CONVERSATION BETWEEN EMBOFF AND DIRECTOR OF CUSTOMS PANDE, PANDE PROVIDED CONFIRM-  
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ING INFORMATION ON MOST OF ABOVE AND ALSO MADE SEVERAL ADDITIONAL POINTS OF INTEREST. IN AREA OF INTANGIBLES, PANDE NOTED THAT INDIANS HAD PRESSED HARD TO PUT LABEL OF "TRAFFIC AND TRANSIT" ON TRANSIT TREATY, ONLY BACKING OFF AT LAST MINUTE TO AGREE ON STRAIGHT "TRANSIT" TREATY. WHILE THIS WAS STILL SHORT OF LEGAL RECOGNITION OF NEPALESE RIGHT AS LAND LOCKED STATE TO FREE TRANSIT, AT LEAST IMPLICATION THAT NEPALESE ACCESS HAD NO MORE STANDING THAN CATEGORY OF NORMAL TRAFFIC HAD BEEN AVOIDED. IN TERMS OF SPECIFICS ON TRANSIT, PANDE STATED THAT GOI HAD GRANTED IMPROVED FACILITIES IN CALCUTTA. SPECIFICALLY, NEPALESE WILL NOW CONTROL SPECIFIED PIER AREA AND WILL BE IN CHARGE OF ALL HANDLING OPERATIONS FROM DOCK SIDE TO WAREHOUSE. PREVIOUSLY, WITH INDIANS DOING ALL HANDLING UNTIL GOODS REACHED NEPALESE WAREHOUSE FACILITIES, PANDE STATED THERE HAD BEEN TENDENCY FOR SOME CONTROVERSIAL SHIPMENTS (E.G. RADIOS OR COMPUTERS) TO SUFFER "UNFORTUNATE DAMAGE" BEFORE EVER COMING UNDER NEPALESE CONTROL AT WAREHOUSE.

5. BHATT ALSO EXPRESSED SOME OPTIMISM OVER PROSPECTS FOR TRANSIT FOR NEPAL THROUGH INDIA FOR TRADE WITH PAKISTAN, NOTING THAT FOREIGN SECRETARY MEHTA HAD REITERATED INDIA'S FAVORABLE INCLINATION TO PROVIDING SUCH TRANSIT PROVIDED PAKISTAN AGREED TO SIMILAR TRANSIT FOR INDIA THROUGH PAKISTAN FOR TRADE WITH AFGHANISTAN. BHATT ADDED THAT NEWS REPORTS SEEMED TO INDICATE THAT AFGHAN PRESIDENT DAOUD HAD MADE SOME PROGRESS ON THIS MATTER IN HIS CONVERSATIONS WITH PRESIDENT ZIA.

6. IN RESPONSE TO QUERY AS TO WHAT NEPAL HAD HAD TO CONCEDE IN RETURN FOR THESE INDIAN CONCESSIONS, BHATT SAID INDIANS HAD PRESSED FOR SOME MODIFICATIONS OF NEPALESE ECONOMIC POLICIES, SUCH AS EXPORT BONUS SCHEME, CONFIDENTIAL

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WHICH INDIANS BELIEVE CONTRIBUTE TO SMUGGLING OF FOREIGN GOODS FROM NEPAL TO INDIA. HOWEVER, NEPAL HAD RESISTED THE INCLUSION IN THE AGREEMENTS OF ANY CONCESSIONS BY NEPAL ON THESE POINTS. HE ADDED, AS HE HAD IN AN EARLIER CONVERSATION, THAT IF NEPAL DECIDED ON ITS OWN TO MODIFY SOME OF THESE POLICIES, THAT WOULD BE A DIFFERENT MATTER, BUT NEPAL HAD NOT CONCEDED TO INDIA

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C O N F I D E N T I A L SECTION 2 OF 2 KATHMANDU 1265

ANY VETO OVER WHAT NEPAL IMPORTS OR WHAT FINANCIAL OR TRADE POLICIES IT FOLLOWS. BHATT ADDED THAT, SPEAKING PERSONALLY, HE WOULD NOT BE UNHAPPY TO SEE NEPAL IMPOSE SOME CURBS ON THE EXPORT BONUS POLICY, AS THE PEOPLE WHO BENEFITED FROM IT IN NEPAL, WHETHER THEY WERE INDIAN OR NEPALESE TRADERS, CONTRIBUTED LITTLE TO NATIONAL WELFARE AND DEVELOPMENT AND WERE INTERESTED MAINLY IN FILLING THEIR OWN POCKETS.

7. PANDE PRESENTED SOMEWHAT DIFFERENT VIEW ON THIS ISSUE. HE STATED, WITH REGARD TO TRADE DEFLECTION THAT ECONOMIC AND TRADE POLICIES OF ONE OF PARTIES SHOULD NOT ADVERSELY AFFECT LIKE POLICIES OF THE OTHER. WHILE SUCH LANGUAGE DOES NOT GIVE GOI VETO ON NEPALESE POLICIES, DISCUSSION WITH PANDE MADE IT CLEAR THAT INDIAN INTENT WAS TO GIVE INDIANS RIGHT TO OBJECT WHEN THEY BELIEVED NEPALESE TRADE POLICIES WERE LIKELY TO FACILITATE SMUGGLING INTO INDIA. ON THE OTHER HAND, PANDE ALSO MADE IT CLEAR THAT GON WAS NOT CONCEDING POINTS IN ADVANCE--IT WILL BE FULLY PREPARED TO DEFEND ITS DECISIONS ON THIRD COUNTRY IMPORTS AND CONFIDENTIAL

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TO PUT ONUS OF SMUGGLING PREVENTION ON BETTER BORDER CONTROLS TO BE WORKED OUT BY TWO SIDES. CLEARLY THIS IS AREA WHERE EFFORTS TO IMPLEMENT AGREEMENT IN PRACTICE MAY BE CONTROVERSIAL.

8. COMMENT: NEPAL HAS FARED BETTER IN THESE NEW TREATIES AND AGREEMENTS THAN IT HAD PREVIOUSLY EXPECTED TO (SEE REFTEL). HMG CAN NOW POINT TO A NUMBER OF GAINS AND THE POSSIBILITY OF ADVERSE DOMESTIC REACTION, WHICH SEEMED TO BE DEVELOPING BECAUSE NEGOTIATIONS WERE SO PROTRACTED AND BECAUSE PROSPECT OF ADVANTAGES FOR NEPAL SEEMED LIMITED, IS CONSIDERABLY LESSENER.

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## Message Attributes

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